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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 000908

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RIYADH FOR RICK MILLS

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [BEXP](#) [KU](#) [OIL](#) [SECTOR](#)
SUBJECT: KPC CEO ON GAS PROJECTS, FOREIGN PARTICIPATION IN
OIL SECTOR, AND U.S. REFINERY PROJECT

REF: A. KUWAIT 0676
[B. 05KUWAIT 5266](#)
[C. 05KUWAIT 5252](#)
[D. 05KUWAIT 4648](#)

Classified By: Ambassador LeBaron for reasons 1.4 (b) and (d)

[1. \(C\) Summary:](#) KPC CEO Hani Hussain told Ambassador on March 12 that Kuwait's recently announced discoveries included "very respectable amounts of gas," and expected usable production of the new gas resources within "three to four years." Hussain said that this gas discovery would not eliminate the need for gas deals with other countries, and that Kuwait was now exploring options to import LNG by ship, purchased on the international market. Hussain listed the development of Kuwait's northern oilfields and expansion of refinery capacity as KPC's biggest current priorities. He added that Kuwait is eager to develop more international cooperation and to welcome more foreign participation in its oil sector, and that "new types of arrangements" needed to be examined. KPC has been in discussions with "several parties," not majors but well-known companies, concerning Kuwait's participation in the development of a new refinery in the U.S., according to Hussain, and he also noted Kuwait's interest in having a U.S. company take an equity position in a new refinery being constructed in Kuwait. The CEO said that the location of the new Kuwaiti refinery, an issue that Chevron subsidiary Saudi Arabian Texaco has raised with KPC, "won't be changed." Finally, Hussain said that while KPC does have some minor difficulties with the Iraqi Government-owned SOMO's fluctuating demand for different fuel products and the strain it puts on KPC's supply chain, KPC is getting paid and it is the locally-owned Kuwaiti transport companies that are at times not having their invoices paid by SOMO. End Summary.

"A Respectable Amount Of Gas"

[2. \(C\) During a March 12 meeting with Kuwait Petroleum Corporation \(KPC\) CEO and Deputy Chairman Hani Hussain, the Ambassador congratulated him on Kuwait's recently announced new discoveries of oil and gas \(Ref A\). Hussain said that KPC "knew for some time" that there was something to this new discovery, but needed to test for quantity and pressure, "in order to make sure." He said that the find included "very respectable amounts of gas." The challenge now, Hussain noted, is "to implement projects in proper time \(in order to\) utilize the resources." He said that he expected to have usable production from the new gas find "within three to four years", and estimated production at 500 million to 1 billion](#)

square cubic feet of gas per day. He added that 70% of this production would be used locally with the remaining high-value products destined for export.

But Still Not Enough

13. (C) The CEO said that this new gas discovery would not eliminate Kuwait's need to import gas from elsewhere and that KPC was actively working on a strategy to this end. He said that he had assigned a new group to work on a strategy to import LNG by ship "as soon as possible." Kuwait "might only import gas for part of the year" he explained, adding that while Europe and other places needed more gas in the winter, Kuwait's highest demand was in the summer, when gas was needed to fuel the power plants in order to generate electricity for air conditioning. Kuwait could get this gas from the international market, according to Hussain, purchased either through long-term contracts or spot pricing. The deal to import gas from Qatar via pipeline (Ref D) was not progressing at all, Hussain said, and the gas promised to Kuwait was no longer available. He added that Qatar has "too many projects" going on at the same time and that the gas for Kuwait would not have been available until 2011 anyway.

Kuwait Project Update

14. (C) The enabling law allowing for foreign participation in development of Kuwait's northern oilfields (Kuwait Project) "will be given priority" by Parliament's Financial and Economic Affairs Committee, according to Hussain, and then will move to the full Assembly. "We have the votes" to pass the law, he insisted, and added that "it would have been

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settled if not for the passing of the Amir." Commenting on a late-2005 State Audit Bureau review of the enabling law (Ref B), Hussain said that the Bureau's comments concerning the constitutionality of the project "were out of their jurisdiction." He said that he hoped to see passage of the law before May. He added that, in light of the January 25 resignation of Kuwait Project Managing Director Ahmed Al-Arbeed, Acting MD Hashem Al-Rifaei is "very capable," and that a new deputy, Khalid Al-Khanees, has just been appointed the new deputy.

Refinery Expansion and International Cooperation

15. (C) Besides the Kuwait Project, Hussain also listed expansion of the refinery sector as one of KPC's biggest priorities. He said that some equipment ("reactors") has already been purchased for the new refinery and that the existing refineries would also be upgraded and modernized. "We have to keep up with the demand for advanced products," he explained, adding that KNPC would be awarding over KD 1.25 billion (\$4.26 billion) in refinery upgrade contracts over the next few years. Other facilities, particularly export infrastructure, would also be expanded, he said.

16. (C) The CEO said that one of KPC's objectives was to have part of the new refinery under private ownership, and that KPC was specifically interested in a U.S. company taking an equity stake in the project. He added that KPC has always found it "very efficient" to have a U.S. partner, and inquired about ConocoPhillips' interest in the Yanbu refinery project in Saudi Arabia.

17. (C) Hussain reflected on Kuwait's need for further international cooperation to develop its oil sector. Acknowledging the difficulties with getting approval for the Kuwait Project, he said that "new types of arrangements" have to be created. He said that he did not think that Kuwait could use existing models for such arrangements but would

have to create new ones. "The IOCs want to be rewarded for their work," he admitted, adding that it did not necessarily have to be in bookable reserves, but had to go beyond simple technical services agreements.

"Several Parties" Interested in Refinery Project in U.S.

18. (C) Concerning Kuwaiti interest in participating in a refinery project in the U.S., Hussain said that KPC has been "talking to several parties" in the U.S. He added that KPC "has sent and is sending several delegation to the U.S. to discuss" a refinery project. He said that one of the options KPC is exploring is a "processing agreement" where KPC would provide a guaranteed amount of crude to the refinery operator and then have a share of the profits from the refined products. Hussain explained that "all discussions (with parties in the U.S.) are aimed at meeting the objectives of providing more refined products to the U.S. market." He said that KPC was not talking to the major U.S. companies, but to well-known companies in the next rungs of the oil business. He re-emphasized the GOK's interest in partnering with an established American company. While not explicitly saying that it concerned the U.S. refinery project, Hussain said that he would soon be attending a "confidential meeting" in Europe with a U.S. company, because the unidentified company did not want to meet in Kuwait or the U.S.

New Refinery Location "Won't Be Changed"

19. (C) The Ambassador raised the issue of the location of the new Kuwaiti refinery and its potential impact on the operations of Chevron subsidiary Saudi Arabian Texaco (SAT). Hussain said "the refinery is extremely important" and that "the location won't be changed." He said that he was aware that the SAT concession was due to expire in 2009, echoing comments that we have heard from other interlocutors (Ref C). Finally, he added that "the Energy Minister already knows all of the details" of the refinery location and SAT's concerns, signaling that it would be of little use to pursue the matter further.

KPC Getting Paid By SOMO, Transporters Not

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110. (SBU) Asked about KPC's relationship with Iraq's SOMO, Hussain said that KPC was still selling gasoline and diesel to SOMO for use by the Iraqi people and that KPC was being paid on time, for the most part. He said that SOMO has a letter of credit that guarantees payment to KPC, but that the private locally-owned Kuwaiti transport companies do not have the same guarantee and are at times not having their invoices paid by SOMO. He said that the companies had raised the issue with Kuwait's Energy Minister, and added that the problem appeared to stem from SOMO's desire to introduce a third transporter into the equation. He said that, overall, the operation on the Kuwaiti side is smooth but that "the supply details change often" with the Iraqis asking for different amounts of gasoline and diesel on a regular basis with no set formula.

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